

Sharon L. Nelson, Chairman
Richard D. Casad, Commissioner
A. J. "Bud" Pardini, Commissioner



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W. • Olympia, Washington 98504-8002 • (206) 753-6423 • (SCAN) 234-6423

RECEIVED

MAR 10 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 8, 1993

RECEIVED

MAR 10 1993

Donna R. Searcy, Secretary
Federal Communications Commission
Washington, D.C. 20554

FCC - MAIL ROOM

Dear Ms. Searcy:

Please accept for filing in CC Docket No. 92-296 the original and nine copies of the Comments of the Washington Utilities and Transportation Commission (WUTC), In the Matter of Simplification of the Depreciation Prescription Process.

Sincerely,

Paul Curl
Secretary

No. of Copies rec'd
List A B C D E

0+9

RECEIVED

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

MAR 10 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the matter of)

Simplification of the Depreciation)
Prescription Process)

CC Docket 92-296

RECEIVED

MAR 10 1993

COMMENTS OF THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION (WUTC)

FCC - MAIL ROOM

The Federal Communications Commission, in this Notice of Proposed Rulemaking (Notice), seeks comment regarding four options for simplifying the depreciation prescription process.

The Notice asks for specific comment on over ten different aspects of developing and implementing four depreciation simplification proposals. Our resources do not permit detailed responses on each aspect of each proposal, but we will provide our thoughts regarding the proposal generally and suggest some modifications for your consideration.

The FCC prescribes rates for both U S WEST and GTE of the Northwest, the two largest local exchange carriers (LECs) in Washington state. Our staff actively participates in the prescription process and we concur in the basic factor parameters determined in the triennial prescription process for setting intrastate depreciation rates.

The Notice cites "significant competition in the interexchange market, emerging competition in the local exchange market, and more rapidly changing technology" as well as an estimated \$35-50 million annual cost for determining depreciation rates in support of considering the streamlined procedures. (Notice at 8.)

We agree that significant competition exists for interexchange carriers (IXCs) and in granting competitive classification to IXCs in this state, we no longer require IXCs to file depreciation rates or studies. In addition, we have granted competitive classification for certain services of U S WEST where effective competition is found for local exchange services, and regulate U S WEST by an alternative form of regulation under which the company shares excess earnings with customers.

The Costs and Benefits of Simplification

Accurate depreciation rates are essential for both competitive and monopoly industries. The reason detailed studies are required in monopoly industries is that the risks and consequences of incorrect depreciation rates are borne by the ratepayer rather than the shareholder. The proposal, as we understand it, would eliminate the detailed study requirement for all but six of the thirty three plant accounts for which rates are prescribed. The question of whether detailed studies should no longer be required must consider, in our view, whether the ratepayer or the shareholder would bear the risk and consequences of erroneous depreciation rates and the degree to which costs are properly assigned to each generation of ratepayers, weighed against cost savings and potential for abuse.

The \$35-50 million estimated industry-wide annual cost of determining depreciation rates appears to be grossly exaggerated unless one includes the costs of maintaining detailed plant records. The records, however, are needed for multiple other purposes beside the determination of depreciation rates. We urge the FCC to critically examine the estimates of cost savings that companies have been asked to submit in responding to this Notice and to carefully weigh legitimate cost savings against the benefits of detailed studies.

The costs of simplifying the depreciation prescription process includes moving away from the depreciation principle of recovering the cost of plant over its useful service life, and the potential for companies to use the simplified option to manipulate results of operations.

We have serious concerns regarding the abandonment of detailed studies used to determine the estimated service life and other plant characteristics. While the need for regulation may eventually be replaced by competitive market pressures, that day has not yet arrived and may not arrive for some time. Rates for monopoly service ratepayers are still based upon revenue requirements and regulators still need to determine the reasonableness of proposed rates. As Commissioner Duggan so aptly pointed out, depreciation expense is the largest component of total telephone company expense, and is susceptible to overly optimistic treatment. (See Concurring Statement of Commissioner Duggan.) If state commissions cannot concur in the simplified FCC schedules, local exchange carriers will still be required to produce the detailed studies for states, and any expected cost savings will be seriously reduced or eliminated. In addition, states will have to incur additional costs for obtaining software and computer capacity to perform the functions that are now performed by the FCC staff thus possibly increasing total costs. Hence, the interests of all parties are best served by careful consideration of any proposal to simplify the depreciation prescription process.

Comment on Options A and B.

Under the proposal submitted by the USTA to the NARUC Depreciation Subcommittee, all but six plant accounts would be subjected to the simplified depreciation process. The WUTC staff has evaluated this proposal for U S WEST Washington operations and found that about 20-30 percent of total plant in service would be subject to the proposed simplification options and that depreciation expense could increase by more than \$25 million under the proposed basic factor parameters.

In our view, the most important factor in considering any simplification proposal is the extent of its applicability. We suggest that accounts under options A or B be limited to one percent or less of total investment. By limiting the simplification to accounts containing one percent or less of total plant investment, detailed studies would be eliminated for a significant number of plant accounts (19 of 33 for U S WEST Washington operations) thereby allowing cost savings to be realized. At the same time, the amount of plant investment and subsequent accrual which would be subject to the simplification options is limited sufficiently to ease concerns regarding companies using the flexibility of parameter ranges or depreciation schedules to manipulate results of operations.

With regard to the question of how to establish the range for basic factors, the proposal to use a range consisting of the industry average plus or minus one standard deviation is a concern because the range would (statistically) only include 68 percent of the observations. In other words, 32 percent of the currently prescribed parameters are not included in the range and result in inaccurately specified depreciation rates at the very outset. The Notice asks for comment on a proposal to phase in the factor by setting the factor at the currently specified level and transitioning to the range at some percent over a period of time. (Notice at 20.) We believe that the better choice is to limit the plant accounts subject to the one percent limitation described above, and allow the companies flexibility in the choice of rates or parameters within the established ranges. If currently prescribed parameters fall completely outside the range, then a transition mechanism could be used to reach the range over a three year period.

Of the two simplification options, we prefer the basic factor range over the depreciation rate range option since a more accurate rate would be produced at the outset. However, since specific mortality curves and projection lives are no longer used to calculate the rate, there is no rationale for continuing to calculate rates under the Equal Life Group (ELG) grouping procedure. Hence, this procedure should not be used in the calculation of simplified depreciation rates.

Comment on Options C and D.

Under option C, the FCC would establish a single schedule for each plant account which all companies would use to calculate depreciation rates. We have some reservations about this option to the extent that it would essentially mandate systematic uniform parameters for all companies in all states. Any proposal to impose uniform industry-wide parameters is a concern because there is considerable variation between states in parameter estimates. Hence, depreciation accruals in any given state may be more or less than the consumption rate of plant in the state, leading to a mismatch of consumption with accruals. Therefore, we recommend the FCC not give further consideration to this option.

Under option D, price cap carriers would be permitted to file depreciation rate changes without any support whatsoever. This proposal constitutes both bad precedent and bad policy. We concur in Commissioner Duggan's statement regarding the option and believe it should be summarily rejected from further consideration.

Additional Simplification

The Notice asks for comment on whether the FCC should change the approach to net salvage and not consider it in the depreciation process.

Generally, much time and effort is expended in the depreciation prescription process in determining the future net salvage rate for each plant account. This process can be considerably simplified by either directly expensing salvage as suggested in the Notice or by eliminating salvage accounting for each plant account and instead establish a single salvage account applicable to all plant accounts.

While we believe the FCC could eliminate net salvage from consideration in the depreciation prescription process, a case can be made that GAAP requires net salvage costs be accounted for in depreciation accrual rate. If the FCC concludes that the expensing proposal is not feasible at this time, we suggest the latter approach.

Under the latter proposal, all cost of removal and gross salvage would be accumulated as a single net salvage amount. The net amount would be divided into total plant investment to obtain a single net salvage estimate which would be applied to all plant accounts. While we recognize that this approach would lead to some distortion in the appropriate depreciation rate, the benefits of simplifying the current process appear to outweigh the costs.

This approach would be easy to implement and would eliminate the need for numerous salvage schedules and accounting records for

each specific plant account. Our primary preference though is to move to current period accounting. The FCC should thoroughly explore the proposal in a subsequent proceeding.

We believe that our comments support the FCC goals of reducing unnecessary regulatory burdens and their associated costs while providing continuing protections for ratepayers.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



Sharon L. Nelson, Chairman



Richard D. Casad, Commissioner